GOVERNANCE, CEO POWER, AND ACQUISITIONS

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Abstract

We examine whether governance matters for acquisitions. Acquisitions are frequently beneficial to the CEO of the acquiring firm, but can often be value-destructive to acquirer shareholders and other stakeholders such as employees. We find that corporate governance does not appear to influence whether a firm will become an acquirer after controlling for CEO power, but superior governance is associated with greater relatedness between the target and acquirer. We also find that the effect of CEO power on a firm's acquisition activity varies according to the source of that power. Our results suggest that the relationships between governance, CEO power, and acquisition activity are complex.

Keywords: Corporate Governance, Acquisitions, Diversification, CEO Power

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1. Introduction

The literature on corporate governance has grown significantly in the past few years (e.g. Larcker *et al.*, 2007; Brown and Caylor, 2006; Jain and Razee, 2006; Farber, 2005), but has produced mixed results in terms of answering the question posed by Larcker *et al.* (2004): "how important is corporate governance?" While results from Gompers *et al.* (2003), Cremers and Nair (2005), and Brown and Caylor (2006) indicate that firms with superior overall governance mechanisms outperform by various measures, results from Larcker *et al.* (2007) and work reviewed by Becht *et al.* (2002) are more pessimistic. Larcker *et al.* show that corporate governance explains little cross-sectional variation for a number of performance-related variables. Becht *et al.*'s review indicates that key factors in corporate control (e.g., board characteristics) do not appear to be related to corporate performance. We examine the effect of governance in the specific setting of a firm's acquisition activity, and we control for the CEO's personal power using proxies borrowed from the management literature.

Acquisitions are a useful natural laboratory for studying the effects of corporate governance and CEO power because they often exemplify the agency conflict between managers and shareholders. Acquisitions have ramifications for many stakeholders including the CEO, shareholders, employees, and the general public. Acquisitions may be pursued by CEOs because they provide personal benefits, such as an increased salary; however, they are often value-destructive to firm shareholders (Tehranian *et al.*, 1987; Morck *et al.*, 1990; Oler, 2008). A recent survey of executives finds that mergers and acquisitions are a major priority in their short term horizon (Krell, 2006). Even executives whose positions are eliminated receive hefty severance packages, such as Gillette's James Kilts who received a $163 million package (Thornton *et al.*, 2005). Furthermore, some research suggests that more diversifying acquisitions provide additional benefits to the CEO, such as decreased sensitivity of their compensation schemes to firm performance (Anderson *et al.*, 2000).

Acquisitions are a significant feature of the corporate landscape, and the most recent acquisition wave studied in the finance literature (from 1998 to 2001) appears to have resulted in the loss of about $240 billion dollars for U.S. shareholders (Moeller *et al.*, 2005). The AOL-Time Warner merger alone has cost shareholders more than $200 billion (Morgenson, 2005). One study found that "post" diversified firms decreased shareholder value by approximately 13 – 15 percent (Berger and Ofek, 1995). Despite this evidence that acquisitions may decrease shareholder wealth, there are relatively few studies that focus on how governance influences acquisitions.

Prior work on governance did not explicitly control for the CEO's power. We define power as the capacity to assert one's will; when applied to CEOs, power is the ability to exert one's will over the strategic direction of the firm (Finkelstein, 1992). As defined by Finkelstein, power can be divided into various types of power: Expert, Prestige, Structural, and Ownership. It is combinations of these elements of power that allow powerful CEOs to take a firm in bold new directions that improve shareholder value (e.g., Steve Jobs at Apple), or conversely can reduce firm value while maximizing personal utility (e.g., Dennis Kozlowski at Tyco). Strong corporate governance mechanisms can serve as a check against CEO power; ideally, strong firm governance should mitigate the negative effects of CEO power.

In the context of our paper, strong governance mechanisms would limit CEOs' aspirations of rapid growth by acquisitions to further increase personal wealth and potentially restructure the acquired firms with massive layoffs, since both outcomes are seen as detrimental to the general public. We examine the relationship between various measures of governance and CEO power on (1) whether the firm will pursue one or more acquisitions in a given year, and (2) the level of relatedness between the acquirer and target.

We use three measures of corporate governance strength: the size of the board, the proportion of outside directors on the board, and the Bebchuck, *et al.* (2004) "E" score. Bebchuk, *et al.* (2004) identify 6 key factors (and create an "E-score") explaining the variance in firm value and stock performance. The E-score variables relate specifically to board structure and CEO provisions. The E-score includes the following elements: staggered boards, limits to amend bylaws, limits to amend charter, supermajority, golden parachutes, and poison pills (for further discussion on these variables see Bebchuk, *et al.*, 2008).

We draw upon Finkelstein (1992) for our measures of CEO power. Finkelstein classifies CEO power measures into four groups: expert power (the CEO's experience and abilities), prestige power (the CEO's reputation), structural power (the CEO's formal position within the firm), and ownership power (the CEO's proportionate ownership of the firm and potential status as a firm founder).

We find that our governance measures are not related to whether a firm pursues an acquisition in a given year, after controlling for CEO power. However, they are strongly associated with the level of relatedness between the acquirer and target, where relatedness is defined using the firms' industry classifications. Several varying definitions of relatedness exist in the literature, and for brevity and clarity we define related firms as firms that share the same first two digits of their primary SIC code, while semi-related firms share only the first digit of their SIC code. A firm with stronger governance (proxied by E) is more likely to pursue a related or semi-related acquisition and less likely to pursue an unrelated acquisition. Semi-related acquisitions are also more likely if the firm has more outside directors on the board, but are less likely if the firm has a larger board.

The results can be condensed into a few stylized facts. First, governance does not appear to affect whether a firm will pursue an acquisition, or the market's response to that acquisition, but does significantly explain the relatedness of the target firm. This is consistent with the widely held view that acquisitions are more likely to be successful when the acquirer and target are at least somewhat related (for example see Kaplan and Weisbach, 1992, and Santalo and Becerra, 2008). Firms with stronger governance are more likely to pursue a related or semi-related acquisition and less likely to pursue an unrelated acquisition. Second, the source of CEO power determines its relationship with acquisition activity and (to some degree) the market's response to the acquisition announcement. It is not possible to conclude that a more powerful CEO is likely to pursue an acquisition, or that a more powerful CEO is more likely to diversify the firm without knowing the specific source of the CEO's power. Similarly, the market's reaction to an acquisition announcement is not uniformly higher or lower for a more powerful CEO.

This research makes contributions to a number of fields of research. We show that governance matters with respect to the selection of target firms in acquisitions, after controlling for CEO power. Also, because we control for a number of variables already shown to have explanatory power over acquisition performance, we show that our measures of CEO power have explanatory power over acquisition activity beyond what is already known in the literature. We also show that measures of CEO power cannot be viewed as fungible: different sources of CEO have entirely different implications. CEO power is not a unified construct when it comes to acquisition activity.

The remainder of the paper is organized as follows. Section 2 reviews related research develops our hypotheses, and section 3 describes the sample and provides descriptive statistics. Section 4 reports our empirical findings, and section 5 summarizes and concludes the paper.

2. Review of related research and hypothesis development

2.1 CEO Benefits from Acquisitions

Acquisitions have been the subject of numerous studies focusing primarily on returns (see Jensen and Ruback, 1983, and Agrawal and Jaffe, 2000, for reviews), and although initiating and overseeing acquisitions are

primarily the CEO's responsibilities (Lehn and Zhao, 2006), comparatively little attention has been paid to the role that governance and CEO power plays in the acquisition activity of the firm. We begin by reviewing agency theory and how such a theoretical framework would influence the motives of the CEO in acquisition strategies.

The agency theory perspective argues that principals, who do not have the time to personally manage and yet have an interest in a firm, will engage agents to manage the firms on their behalf (Jensen and Meckling, 1976). With this arrangement, there is a separation of ownership and control, and thus a potential for agents to engage in self-serving behaviors that may have negative outcomes for shareholders. Proponents of agency theory maintain that executives in management-dominated firms will have different strategy motives than executives in owner-dominated firms (Amihud and Lev, 1981).

One strategic option for executives is acquisitions. Acquisitions are often value-destructive to acquirer shareholders (Morck *et al.*, 1990; Moeller *et al.*, 2005; Oler, 2008), but can provide significant benefits to the acquirer's CEO. For example, acquisitions increase the firm's size, and this in turn can decrease the CEO's employment risk and increase his personal compensation (Morck *et al.*, 1990).

Diversifying acquisitions can be personally more beneficial to CEOs than nondiversifying acquisitions. Rose and Shepard (1997) show that the CEO's compensation is 13% higher in diversified firms vs. non-diversified firms. Anderson *et al.* (2000) find that executives in diversified firms have executive compensation schemes that are less sensitive to firm performance than single business unit firms. The more diversified the firm the greater the potential for information asymmetry between top management and shareholders, thus exacerbating agency conflicts (Bizjak *et al.*, 1993). Highly diverse firms operate in multiple markets, which increase the complexity of the firm's operations. This complexity decreases the firm's transparency of transactions within the firm's business units, and can provide top executives with an opportunity to engage in self-serving decisions with less risk of detection by shareholders.

However, diversifying acquisitions may be more value-destructive to shareholders (especially completely unrelated diversifications). In their guidance to professionals, both Hitt *et al.* (2001) and Gaughn (2002) report that the degree of diversification makes a difference to the performance outcomes of the acquisition. Unrelated diversification strategies focus less on synergies (Palepu, 1985) and more on exploiting untapped markets, rescuing an ailing firm or spreading the business-specific risk across industries (Eisenmann, 2002). Conglomerate acquisitions, or acquisitions where the target is completely outside the traditional industry of the acquirer, often have negative outcomes (see Hitt *et al.*, p. 117; Gaughn, 111; Berger and Ofek, 1995). In contrast, some studies show that related diversification strategies perform better (Palepu, 1985; Palich *et al.*, 2000). This suggests that diversifying acquisitions are more likely to occur when agency conflicts between management and shareholders are more severe.

2.2 Corporate Governance

Corporate governance is an important mechanism for controlling agency costs. Several scandals have focused public attention on governance, and on the role of governance in preventing the CEO from pursuing strategies that maximize his or her personal utility at the expense of shareholder wealth. Hill and Snell (1988) find that when stockholders dominate, business strategies generally focus on building corporate wealth (i.e., innovation and research and development), but when corporations are dominated by executives, strategies tend to center on issues such as executive power or security. However, prior work investigating linkages between superior corporate governance and performance has produced mixed results. In their review, Becht *et al.* (2002) report that key governance mechanisms, such as the board of directors, appear to be weak and ineffective in terms of monitoring managers. Larcker *et al.* (2007) report that a consistent set of empirical results has not yet emerged regarding the significance of corporate governance for company performance. Their own analysis also produces mixed results. Similarly, Gupta *et al.* (2009) find little evidence of on the association between measures of governance and firm value for Canadian firms. We hope to expand the literature on corporate governance by examining acquisitions as a particular corporate decision that is clearly linked to the CEO. Specifically, we consider three measures of governance: the size of the board, the proportion of outside directors on the board, and the firm's general governance proxied by Bebchuk *et al.*'s (2004) E-score.

The E-score consists of six corporate governance provisions related to executive entrenchment. These provisions include: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendments. Bebchuk *et al.* (2004 and 2008) find that increases in the index are positively associated with firm valuation and abnormal returns.

The board oversees the strategic decisions of the firm, and can therefore act as a significant counterbalance to the CEO. We operationalize board power as the number of board members and the proportion outside versus inside board members (Sahlman, 1990). Redicker and Seth (1995) find that strong boards are given higher monitoring potential

when firms have dominant top managers. Core *et al.* (1999) find that CEOs earn greater compensation when board structures are weak, suggesting that stronger governance reduces agency problems. Strong boards, therefore, may be an important monitoring body that aligns the interests of the CEO with the interests of shareholders. One clear example is provided by D'Orio (2005) who argues that the fraud at Parmalat involved a powerful CEO without sufficient independent oversight from the board.

There is mixed evidence that board size and composition matter in organizational outcomes. Board characteristics, such as board size, are important indicators of a firm's passive or vigilant monitoring of the CEO and the other executives. For example, Hermalin and Weisbach (1988) report that the board size is positively associated with corporate diversification. Hill and Snell (1988) find that the ratio of outside board members to total board members is positively related to board involvement in strategic restructuring. However, Newman and Mozes (1999) do not find any association between the proportion of outside directors and CEO compensation.

More recent studies on general governance focus on the relationship between governance and firm valuation. Gompers *et al.* (2003) form an index based on 24 basic governance provisions ("G-score"), and report that firms with stronger shareholder rights (suggesting weaker management power) have higher value (and higher abnormal returns over their test period) than firms with weaker shareholder rights. Bebchuk *et al.* (2004) identify 6 key factors (and create an "E-score") out of the Gompers *et al.* provisions that dominate the other 18 in explaining the variance in firm value and stock performance.

Governance mechanisms should restrict CEOs who may wish to pursue acquisitions that decrease shareholder value (while increasing CEO utility). Because, on average, acquisitions are value-destructive (e.g., Oler, 2008), we expect to find that stronger governance is associated with reduced likelihood that the firm will announce one or more acquisition in a given year.

> H1: The likelihood of a firm announcing at least one acquisition in a given year is decreasing in corporate governance strength.

In addition, because diversifying acquisitions are often viewed as more value-destructive than related acquisitions, we also expect to find that stronger governance is associated with reduced likelihood that a given acquisition will be unrelated (and greater likelihood that a given acquisition will be semi-related or related).

> H2: Acquirers with stronger corporate governance are more likely to pursue a related or semi-related acquisition, and less likely to pursue an unrelated acquisition.

2.3 CEO power

From an agency perspective, power given to or obtained by executives would be problematic if proper incentives are not established or if power is not monitored to ensure that it is used in the best interest of shareholders. The CEO is the most powerful member of a business organization (Bigley and Wiersema, 2002). Although board members approve acquisitions, the CEO usually initiates them and oversees their progress (Lehn and Zhao, 2006). Accordingly, acquisitions are more likely to be pursued by more powerful CEOs because more powerful CEOs are better able to overcome resistance from other sources, such as stronger corporate governance (see Shapiro, 2006, and Adams *et al.*, 2005). Therefore, acquisitions should be associated with CEO power.

Finkelstein (1992) provides a conceptual framework on how executive power can influence strategic outcomes. He defines power as the ability of individuals to exert their will in corporate decision-making. Power can be classified as formal or informal (Adams *et al.*, 2005). Formal power relates to factors that directly provide the CEO with decision-making influences, such as equity holdings or CEO duality, which is whether the CEO also serves as the board chairperson (Davila and Venkatachalam, 2004). Informal power relates to factors that do not directly depend on the CEO's formal position within the hierarchy, such as the CEO's service on other organizations' boards (Core *et al.*, 1999), CEO tenure (Davila and Venkatachalam, 2004) and CEO education (Hitt *et al.*, 2001). Finkelstein (1992) further groups these types of CEO power into more fine-grained categories: expert power, prestige power, structural power and ownership power.

Although these categories of power sources are treated as fungible in prior work, we argue that these forms of power will not be unidirectional in terms of the acquisitions that a firm pursues. In related work, Chen *et al.* (2008) find that CEO duality and firm performance are not associated. While Adams *et al.* (2005) show that more powerful CEOs are associated with greater variance in firm performance. They argue that more powerful CEOs are better able to implement their decisions without scrutiny than weaker CEOs; this can have a positive effect if the CEO makes good decisions, but a negative effect if the CEO makes poor decisions. Consistent with their argument, they find that firms with powerful CEOs are found in both the best and worst performing companies they examine. They also find that different measures of CEO power have different implications for a firm's Tobin's Q and ROA (for example, firm ROA is significantly higher if the CEO is also the founder, but is significantly lower if the CEO is the only insider on the board). Their work

suggests that CEO power might not have a uniform effect on a firm's acquisition activity.

2.3.1 CEO Expert Power: CEO Tenure and Prior Functional Experience

Expert power encompasses the abilities necessary for success in the firm, and CEO tenure is one form of expert power. Longer tenure as CEO increases the likelihood of developing important relationships with key strategic decision makers. Increasing tenure as CEO suggests increasing depth and breadth of knowledge about the organization. Also, because CEOs can be terminated because of poor strategic decisions (e.g., Lehn and Zhao, 2006), longer tenure may indicate greater competence and skill.

Similar to CEO tenure, the CEO's prior experience within the firm before becoming CEO (e.g., working in accounting, or marketing) is an important job-related factor that should contribute to a CEO's ability to successfully manage a firm. CEOs holding more functional positions within the firm before becoming CEO will have more firm-specific knowledge of the firms operations and more contacts within the firm.

2.3.2 CEO Prestige Power: Elite Education and Other Directorships

Prestige power is based on the reputation of the CEO (Finkelstein, 1992). Elite education and other corporate directorships are both important forms of prestige power. Elite education provides individuals with valuable knowledge gained through their interaction with elite individuals and institutions (D'Aveni and Kesner, 1993). The reputation acquired through elite educational institutions is another source of prestige power. D'Aveni (1989) finds that the elite education of executives provides legitimacy that contributes to the success of financially troubled firms, while lack of top management elite education status decreases legitimacy.

Other board directorship appointments also lead to valuable experiences and knowledge, and increase the prestige of the CEO. Directorships give the CEO access to important external information (Pennings, 1980), contacts with other influential and important business elite (Useem, 1979), and ultimately give the CEO greater status and power within his own organization.

We predict that expert and prestige power will have a similar effect on strategic decision making. These forms of power provide the CEO with knowledge and connections that can facilitate the pursuit of acquisitions. Further, expert and prestige power are likely to not be affected by the ultimate outcome of the acquisition – even if the stockholders lose money (for example, a CEO who is powerful because he has a long tenure or because he has an elite education will retain these power sources even if the acquisition proves disappointing). Pursuing both unrelated and related diversification strategies increases the prestige of the CEO, as well as the potential for increased personal benefits. Therefore, a CEO with strong expert and prestige power may be more able to pursue an acquisition that is less likely to maximize shareholder value, including an unrelated acquisition. We hypothesize:

H3: The likelihood of a firm announcing at least one acquisition in a given year is increasing in CEO expert and prestige power; and,

H4: The degree of relatedness between the acquirer and target is increasing in CEO expert and prestige power.

2.3.3 CEO Structural Power: Board Chair

Besides informal expert and prestige power, the CEO can have formal structural power that provides legitimate decision making authority. Legitimate power represents formal authority from the individual's position within the firm. From a CEO power perspective, an independent chairperson can serve as an important check on the CEO's power (Baliga *et al.*, 1996). Thus, the structural power of the CEO increases when a firm consolidates the CEO and chair positions.

However, there are counter arguments when predicting the directional influence of CEO structural power on acquisitions and diversification. An individual holding both the position of CEO and board chair is likely already dealing with significant information overload. She may not want to pursue an acquisition that increases the demands on her time and cognitive abilities. Furthermore, if the CEO's power comes from consolidated positions, the CEO is likely to be exposed to greater criticism if the acquisition does not perform well. These arguments suggest that a CEO whose power is derived mainly from structural sources will be less likely to pursue an acquisition (especially an unrelated acquisition that is more likely to require more effort from the CEO and more likely to underperform).

H5: The likelihood of a firm announcing at least one acquisition in a given year is decreasing in CEO structural power; and,

H6: The degree of relatedness between the acquirer and target is increasing in CEO structural power.

2.3.4 CEO Ownership Power: Shares Owned and Founder of Firm

Greater ownership in the firm's voting stock can affect CEO power in at least two ways. First, ownership gives the CEO increased legitimate power to influence management's decisions (Riahi-Belkaoui and Pavlik, 1993). With this legitimate power, the CEO can also influence the selection of board directors (Fredrickson *et al.*, 1988). Second, Shen and Cannella (2002) argue

that ownership enhances the CEO image as a loyal employee that will seek the best interests of the firm, thus increasing the CEO's credibility. Pitcher *et al.* (2000) show that CEOs who have high ownership power are able to insulate themselves from unexpected or involuntary turnover.

Founders have strong organizational influence, particularly if the founder is also the CEO of the firm (Daily and Johnson, 1997). Status as the founder allows the CEO to play an influential defining role within the organization such as developing a mission statement, outlining objectives, and making other important firm decisions (Gimeno *et al.*, 1997). Ocasio (1994) finds that CEO/founders were less likely to be replaced than CEO/non-founders.

As with structural power, we argue that a CEO whose power is derived mainly from ownership may be disinclined to use that power to pursue acquisitions (especially diversifying acquisitions), in spite of having an enhanced ability to do so because a CEO with high stock ownership has more personal wealth tied to firm performance.

A CEO who is also the corporate founder likely would prefer that the firm remain in the industry in which she is most familiar rather than diversify into areas where others may have more expertise. As well, a firm founder is likely to have nostalgic ties to the original purpose of the organization, and would prefer that the firm not deviate from its original purpose (accordingly, if the firm does pursue an acquisition, we believe it will be more likely to be related or semi-related if the CEO has greater share ownership or is the firm founder). Thus, if the CEO's power is derived from ownership sources, the CEO may be less likely to pursue an acquisition, especially if that acquisition is unrelated.

> H7: The likelihood of a firm announcing at least one acquisition in a given year is decreasing in CEO ownership power; and,
>
> H8: The degree of relatedness between the acquirer and target is increasing in CEO ownership power.

3. Data and methodology

3.1 Sample

To build our sample, we randomly select 300 companies from the Fortune 1000 as of 2004 and collect CEO power, governance, and acquisitions data for the years 1998 to 2004. We eliminate firm-year observations when we are unable to collect sufficient data from proxy statements, Compustat, CRSP, Execucomp, Forbes, or from SDC's Mergers and Acquisitions database. Our likelihood of an acquisition sample has 271 firms and 1,639 firm-year observations. Our level of diversification sample consists of 1,954 acquisitions, as shown in Table 1, Panels A and B.

3.2 Measurement of variables

3.2.1 Governance Variables

For governance variables, we use the size of the board *(BOARD)* and the proportion of the board made up of outside directors *(OUTSIDE_DIRECTORS)*. We also use Bebchuck *et al.*'s (2004) "E" score as another measure of overall governance strength, transformed to be increasing in shareholder rights (and decreasing in CEO power) by taking 6 less the original E score.

3.2.2 Proxies for CEO Power

Expert power – We use two measures of expert power: the CEO's tenure as CEO (Combs and Skill, 2003), calculated as the natural log of the years the CEO has held his position (*CEO_TENURE*), and number of positions (*NUM_POSTIONS*) held prior to becoming a CEO (Finkelstein, 1992). These data are collected from proxy statements.

Prestige Power – We use two measures to estimate prestige power: elite education and corporate directorships. We determine elite education using Finkelstein's (1992) listing of prestigious universities. This variable is defined as 0 if the CEO had no degree from an elite institution and 1 if the CEO had an undergraduate and/or graduate degree from an elite institution (*ELITE*). We measure corporate directorships as the natural log of the number of for-profit boards (*OTHERBOARDS*) on which the CEO serves. These data are collected from proxy statements and from Forbes.

Structural Power - Structural power is based on whether the CEO is also the board chair. Our measure (*CHAIR*) is operationalized as 1 if the CEO also holds the position of chairperson of the board, and zero otherwise; this information is also collected from proxy statements.

Ownership power – Two items are used to measure ownership power. Share ownership (*SHROWN*) is measured as the percentage of the firm's outstanding shares held by the CEO (Daily and Johnson, 1997). We set a dummy (*FOUNDER*) to 0 if CEO is not the founder and 1 if the CEO is the founder of the firm (Finkelstein, 1992). These data are collected from Execucomp and from proxy statements.

3.2.3 Defining Relatedness

Empirical research on diversification has produced mixed results, likely because of varying operationalizations of diversification (often termed a "conglomerate acquisition"). For example Agrawal *et*

al. (1992) define a diversification as an acquisition where the acquirer and target do not share the same 4-digit primary SIC code. Moeller *et al.* (2004) define a diversification as an acquisition where the first two digits of the acquirer's and target's SIC codes differ. We define relatedness using three classifications: "related" acquisitions are those where the target and acquirer share at least the same first two digits of their primary SIC codes, "semi-related" acquisitions are those where the target and acquirer share only the first digit of their primary SIC codes (for example, a firm in the building construction industry, SIC 15, could acquire a firm in the heavy construction industry, SIC 16), and "unrelated" acquisitions are those where the target and acquirer do not share even the first digit of their primary SIC codes (for example, the construction firm acquiring a hotel chain).

3.2.4 Other Control Variables

We include a number of additional control variables, drawing mostly from the finance literature. Following Harford (1999), we control for momentum *(MOMENTUM)*, proxied by size-adjusted buy-and-hold returns over the prior year, sales growth *(SALESGROWTH)*, leverage *(LEVERAGE)*, book-to-market *(BTM)*, size *(SIZE)*, and cash level *(CASHLEV)* in our models. To ensure that our results for CEO tenure are not attributable to older, more established firms buying up younger firms, we control for the firm's age *(FIRMAGE)*, proxied by the number of years that the firm has appeared in the CRSP dataset before our year of interest. Finally, we control for the pre-acquisition level of diversification of the company *(TOTAL_DIV)* following Palepu (1985). For brevity, all variable calculations are shown in the Appendix.

4. Analysis and Results

4.1 Likelihood of an Acquisition

We present descriptive statistics for our variables in Panel C of Table 1. At first glance, it appears that stronger governance is associated with *greater* likelihood of a firm becoming an acquirer (mean E for acquirers is 3.7, vs. 3.5 for non-acquirers, $p<0.01$). This is contrary to our hypothesized relationship, but it is not possible to draw strong conclusions here because we have not controlled for other factors. With respect to our CEO power measures, there is little relationship between our CEO power measures and the likelihood of a firm making an acquisition announcement. The one exception is shares owned by the CEO (SHROWN), which is significantly lower for acquirers (consistent with our expectations in H7).

Our univariate results suggest that acquirers have higher momentum and sales growth than non-acquirers. Acquirers are also larger than non-acquirers, and have higher cash levels (consistent with Harford, 1999). We also find that acquirers have lower leverage and lower book-to-market ratios, suggesting that acquirers are more likely to be less financially constrained and are more likely to be glamour firms. However, these univariate results may not hold in a multivariate setting. As Table 2 shows, many of our proxies are correlated (for example, our Founder dummy is correlated with the percentage of shares owned by the CEO, at 0.47).

To test H1, H3, and H5, we estimate the following logistic regression equation:

$$ACQUIRER_i = \beta_0 + \beta_1 BOARD_i + \beta_2 OUTSIDE\_DIRECTORS_i + \beta_3 E_i + \beta_4 CEO\_TENURE_i + \beta_5 NUM\_POSITIONS_i + \beta_6 ELITE_i + \beta_7 OTHERBOARDS_i + \beta_8 CHAIR_i + \beta_9 SHROWN_i + \beta_{10} FOUNDER_i + \beta_{11} MOMENTUM_i + \beta_{12} SALESGROWTH_i + \beta_{13} LEVERAGE_i + \beta_{14} BTM_i + \beta_{15} SIZE_i + \beta_{16} CASHLEV_i + \beta_{17} FIRMAGE_i + \beta_{18} TOTAL\_DIV_i + \varepsilon_i \quad (1)$$

The dependent variable, ACQUIRER, equals one when the firm announces at least one acquisition during the year (whether or not it is ultimately consummated), and zero otherwise. Our regression includes year and industry dummies which are not tabulated.

Table 3 Model 1 presents summary statistics from equation (1). With respect to our hypotheses, we find mixed results. With respect to corporate governance, we do not find any significant relationship between governance (proxied by *BOARD*, *OUTSIDE_DIRECTORS*, and *E*) and the likelihood of an acquisition announcement, so H1 is not supported.

The likelihood of an acquisition increases with CEO tenure (the estimated coefficient is 0.20, $p<0.01$), supporting H3, but decreases with the number of positions within the firm held previously by the CEO (-0.05, $p=0.05$). Thus, one of our proxies for expert power loads significantly with the expected coefficient sign, but the other loads marginally with the opposite sign. H3 also considers prestige power, but we find that *ELITE* does not load significantly, and *OTHERBOARDS* (-0.22, $p=0.04$) loads with a significantly negative coefficient; again, opposite of our expectations. These results suggest that the more positions the CEO holds on the boards of other firms, the *less* likely the CEO will pursue an acquisition.

Turning to H5, *CHAIR* (our proxy for structural power), is marginally significant (-0.28, $p=0.06$), supporting H5. A firm where the CEO is also the board chair is less likely to become an acquirer (after controlling for other factors). H7 considers ownership power, proxied by *SHROWN* and *FOUNDER*. *SHROWN* (-7.43, $p<0.01$) loads significantly negatively, with the expected sign, supporting H7; a firm where the

CEO owns more of the company's stock is less likely to become an acquirer. However, *FOUNDER* is not significant.

These results suggest that the source of CEO power plays an important role in determining the likelihood of an acquisition, and that the relationship is complex. A CEO with longer tenure is more likely to undertake an acquisition, as expected, but if that CEO is more familiar with the pre-acquisition operations of the firm (proxied by the number of positions held prior to becoming CEO), has stronger relationships with other firms through other board seats, is the board chair, or has more personal wealth at risk, then the CEO is less likely to "rock the boat" by undertaking an acquisition.

Consistent with Harford (1999), our control variables suggest that larger firms with higher sales growth are more likely to become acquirers. In addition, we find that firms with lower leverage and firms more likely to be overvalued (captured by a low book-to-market ratio) are also more likely to become acquirers. However, after controlling for other factors, we find that cash level is no longer a significant predictor of acquisition activity.

4.2 Relatedness between Acquirer and Target

Table 4 reports our findings for relatedness. Model 2 considers the 938 related acquisitions (based on the first 2-digits of the SIC codes), Model 3 considers the 354 semi-related acquisitions (1-digit), and Model 4 considers the 662 unrelated acquisitions in our dataset. We test H2, H4, H6, and H8 with the following logistic regression:

$$RELATED_i, SEMI\text{-}RELATED_i, or\ UNRELATED_i = \beta_0 + \beta_1 BOARD_i + \beta_2 OUTSIDE\_DIRECTORS_i + \beta_3 E_i + \beta_4 CEO\_TENURE_i + \beta_5 NUM\_POSITIONS_i + \beta_6 ELITE_i + \beta_7 OTHERBOARDS_i + \beta_8 CHAIR_i + \beta_9 SHROWN_i + \beta_{10} FOUNDER_i + \beta_{11} MOMENTUM_i + \beta_{12} SALESGROWTH_i + \beta_{13} LEVERAGE_i + \beta_{14} BTM_i + \beta_{15} SIZE_i + \beta_{16} CASHLEV_i + \beta_{17} FIRMAGE_i + \beta_{18} STOCK_i + \beta_{19} HOSTILE_i + \beta_{20} PUBLIC_i + \beta_{21} TOTAL\_DIV_i + \varepsilon_i \quad (2)$$

The dependent variable equals one when the firm announces a related (semi-related or unrelated) acquisition, and zero otherwise. We include the same control variables as those in Equation (1), and add three more controls to pick up other aspects of the proposed acquisition. Specifically, we add a dummy *STOCK* that is set to one if the acquirer offers his own voting stock as consideration to target shareholders (and zero otherwise). We set a dummy *HOSTILE* to one if the acquisition was resisted by target managers, and we set *PUBLIC* to one if the target firm is publicly traded.

A comparison of estimated coefficients between Models 2 to 4 suggests that there are significant differences in the factors that explain the relatedness of the acquirer and target. Specifically, a larger board is marginally more likely to pursue a related acquisition (p=0.095), but less likely to pursue a semi-related acquisition (p=0.02). In contrast, a board with more outside directors is less likely to pursue a related acquisition (p=0.04) but more likely to pursue a semi-related acquisition (p=0.02), perhaps because an outside director is more likely to add greater familiarity with other industries that are still somewhat related to the firm. Overall corporate governance strength, proxied by E, is positively associated with related and semi-related acquisitions (p<0.01 for both), and negatively associated with unrelated acquisitions (p<0.01), supporting H2. Stronger corporate governance appears to be effective in reducing the ability of a CEO to pursue an acquisition that is more likely to be value-destructive.

An acquisition is marginally less likely to be related if the CEO has longer tenure (p=0.06), but the relationship between CEO tenure and a semi-related or unrelated acquisition is not significant. This implies that a CEO with longer tenure is less likely to pursue a related acquisition. A CEO with an elite education is marginally less likely to pursue a related acquisition (p=0.09) and significantly more likely to pursue an unrelated acquisition (p=0.01), partially supporting H4.

CEOs who are also board chairs are marginally more likely to pursue a related acquisition (p=0.08), significantly less likely to pursue a semi-related acquisition (p<0.01), but marginally more likely to pursue an unrelated acquisition (p=0.07). These confusing results do not support H6. The likelihood of a semi-related acquisition is marginally higher in CEO stock ownership (p=0.08) and a CEO who is also the firm founder is more likely to pursue a related acquisition (p=0.03). These results partially support H8.

With respect to our control variables, firms with higher momentum are more likely to announce a semi-related acquisition but less likely to announce an unrelated acquisition. Higher book-to-market firms (i.e., value firms) are more likely to pursue a related acquisition and less likely to pursue an unrelated acquisition. Larger firms are significantly less likely to pursue a related acquisition and marginally more likely to pursue a semi-related acquisition. High-cash firms are less likely to pursue a related acquisition but more likely to pursue a semi-related acquisition.

If the target is also publicly traded, the acquisition is more likely to be related and less likely to be unrelated. Firms that are already highly diversified are marginally less likely to pursue a related acquisition, more likely to pursue a semi-related acquisition, but less likely to pursue an unrelated acquisition. These results suggest that the degree of relatedness between the

acquirer and target captures a broad cross-section control variables and warrants further investigation in future research

4.3 Additional analysis

As additional analysis, we look at the market response to acquisitions announcements. We use the same equation as in Table 4, this time applied to OLS regression analysis on the announcement period return, slightly modified to capture any differential market response to semi-related acquisitions and unrelated acquisitions:

$$ANNRET_i = \beta_0 + \beta_1 BOARD_i + \beta_2 OUTSIDE\_DIRECTORS_i + \beta_3 E_i + \beta_4 CEO\_TENURE_i + \beta_5 NUM\_POSITIONS_i + \beta_6 ELITE_i + \beta_7 OTHERBOARDS_i + \beta_8 CHAIR_i + \beta_9 SHROWN_i + \beta_{10} FOUNDER_i + \beta_{11} MOMENTUM_i + \beta_{12} SALESGROWTH_i + \beta_{13} LEVERAGE_i + \beta_{14} BTM_i + \beta_{15} SIZE_i + \beta_{16} CASHLEV_i + \beta_{17} FIRMAGE_i + \beta_{18} STOCK_i + \beta_{19} HOSTILE_i + \beta_{20} PUBLIC_i + \beta_{21} SEMI\text{-}RELATED_i + \beta_{22} UNRELATED_i + \beta_{23} TOTAL\_DIV_i + \varepsilon_i \quad (3)$$

ANNRET is the market-adjusted (using CRSP's equal-weighted market return) cumulative acquirer return from day -5 to day +5 relative to the announcement. Table 5 reports our findings, with p-values adjusted for heteroscedasticity.

Our measures of corporate governance do not load significantly. However, the market appears to value CEO experience positively in acquisitions, as the CEO tenure variable loads positively (p=0.03). The market response is marginally decreasing if the CEO holds seats on other boards (p=0.08). Similarly, the market response is marginally decreasing if the CEO is also chairperson (p=0.08). If the CEO is also the founder, the market response is significantly lower (p=0.04), suggesting that the market may prefer a founding CEO to "stick to the knitting" (i.e., what he presumably knows best), rather than acquire other firms. Consistent with Moeller *et al.* (2004), the announcement of the acquisition of a public target firm elicits a significantly lower market response than that for a private target.

5. Conclusions

We investigate the relationship between various measures of corporate governance, CEO power, and acquisitions. We show that our measures of governance do not appear to affect whether a firm undertakes an acquisition, but that stronger governance (as proxied by a higher "E" score) are associated with a greater likelihood of a related or semi-related acquisition and with reduced likelihood of an unrelated acquisition. These results are consistent with governance restricting the CEO from pursuing an acquisition that is more likely to be value-destructive (see Hitt *et al.*, 2001 and Gaughn, 2002).

Our results vary considerably depending on the proxy used to measure CEO power: the likelihood of an acquisition is increasing in CEO tenure, but decreasing in the number of positions the CEO held prior to his appointment. CEOs who have gained a wider perspective of the firm from past positions such as vice president of operations and marketing may not want to risk changing the firm's operations (and, by so doing, render their prior experience obsolete).

Acquisitions are also less likely if the CEO sits on the boards of other firms, if the CEO is also board chair, and if the CEO holds more of the company's stock. CEOs who sit on other boards may not want an increase in workload related to an acquisition placed on their already hectic schedules. These CEOs may also prefer to form relationships with other firms through less radical means (such as sitting on their boards). CEOs with more wealth tied to firm performance likely do not wish to jeopardize that wealth by pursuing an acquisition.

With respect to the degree of relatedness between the acquirer and target, CEOs with an elite education are marginally less likely to pursue a related acquisition and significantly more likely to pursue an unrelated acquisition. Investors/boards seeking to diversify a company's holdings may want to consider a CEO educated from an elite institution.

CEOs who are also chairman of the board are marginally more likely to pursue a related acquisition, significantly less likely to pursue a semi-related acquisition, but marginally more likely to pursue an unrelated acquisition. Although these results generally support our argument that CEO duality will increase the chances of related diversification strategies, the results indicating that a CEO/chairperson will pursue unrelated diversification strategies is contrary to our argument. The relationship between the CEO/Chair combination and the relatedness of the target firm appears to be complex, and future research may add more explanatory variables to explain our results. We encourage future researchers to consider expanding on our study to include the entire top management team instead of the just the CEO. We believe this might provide greater insight into the real influence a CEO has.

If the CEO is also the firm's founder, a given acquisition is significantly more likely to be related. This finding is expected as founders are often highly specialized in a specific industry and understand what it takes to succeed in that industry. Founding CEOs also would likely prefer to not delve into areas where they have reduced expertise.

The market views acquisitions as value-increasing when the CEO has greater tenure, marginally value-decreasing when the CEO sits on other boards or holds

the position of chairperson, and significantly value-decreasing when the CEO is also the founder of the firm.

Overall, our results suggest that governance matters with respect to the relatedness between the target and acquirer. Our results also suggest that the source of CEO power has a significant impact on how that power affects the firm's acquisition activity. However, the relationship between CEO power and acquisition is complex: One cannot simply say that a more powerful CEO is more likely to pursue an acquisition, or is more likely to pursue a diversifying acquisition. Investors concerned with the potential of value-destructive acquisitions should consider the combination of governance and CEO power.

Our work brings together insights from management, accounting, and finance in the specific setting of acquisitions. Because we select firms from the Fortune 1000 (and because those firms announced many acquisitions over our sample period), our results may not extend to smaller firms or to firms that were less acquisition active. However, our inclusion of multiple measures of governance, CEO power, as well as a wide variety of controls, contributes to the external validity of our conclusions. Furthermore, our study gives policy makers greater understanding of CEO power in light of governance.

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APPENDIX: VARIABLE DEFINITIONS AND CALCULATIONS

Stock price and shares outstanding are taken from the CRSP database. All financial statement information is taken from the combined CRSP/Compustat (annual) database provided by Wharton Research Data Services (WRDS). CEO power variables are taken from Execucomp, proxy statements, and Forbes. E-scores are taken from http://www.law.harvard.edu/faculty/bebchuk/data.htm, with thanks to Lucian Bebchuk. All financial variables are for the year just ended.

Description and Calculation of Independent Variables

	Variable Name	Description
Governance Measures	Board Size	(*BOARD*) The natural log of the number of individuals on the board of directors
	Outside Directors	(*OUTSIDE_DIRECTORS*) The proportion of directors selected from outside the firm
	E	(*E*) The entrenchment score developed by Bebchuk, Cohen, and Ferrell (2004), transformed to be increasing in governance strength (and decreasing in CEO power) by taking 6 – original E
Expert Power	CEO Tenure	(*CEO_TENURE*) The natural log of the number of years the individual has been firm CEO
	Number of Positions	(*NUM_POSITIONS*) The number of firm positions held before becoming CEO
Prestige Power	Elite Education	(*ELITE*) Dummy variable set to one if the CEO has at least one degree from an elite school
	Other Boards	(*OTHERBOARDS*) The natural log of the number of other boards that the CEO concurrently sits on
Structural Power	Chair	(CHAIR) Dummy variable set to one if the CEO is also Board Chair
Ownership Power	CEO Shares Owned	(*SHROWN*) The proportion of outstanding firm stock held by the CEO
	Founder	(*FOUNDER*) Dummy variable set to one if the CEO is the firm founder

Description and Calculation of Independent Variables

	Variable Name	Description
Financial Controls	Momentum	(*MOMENTUM*) Firm momentum, defined as size-adjusted buy-and-hold abnormal returns accumulated over the firms fiscal year
	Sales Growth	(*SALESGROWTH)* The proportionate increase in sales over sales from the prior year (#12).
	Leverage	(*LEVERAGE)* Long-tem debt (#9) divided by book value of common equity (#60)
	Book-to-Market	(*BTM)* Total book value of common equity (Compustat item #60) divided by market capitalization (shares outstanding x share price, #24*#25)
	Firm Size	(*SIZE*) Natural log of book value of total assets (ln(#6))
	Cash Level	(*CASHLEV)* Cash and cash equivalents (#1), scaled by total assets (#6).
Other Controls	Firm Age	(*FIRMAGE*) Natural log of the number of years from the year of first coverage by CRSP to the fiscal year-end, plus one
	Total Diversification	(TOTAL_DIV) This measure is taken from Palepu (1985), calculated as: Total diversification = S P_j ln $(1/P_j)$ where P is defined as the sales attributed to business segment J, and ln $(1/P_j)$ is the logarithm of the inverse of sales.

Table 1 - Sample Selection and Descriptive Statistics

Panel A: Likelihood of an Acquisition Sample Selection

	Likelihood of an Acquisition
Randomly Selected firms from Fortune 1000	300
Collected data for years 1998 to 2004	7
Total number of firm year observations	2100
Less observations missing data	461
Total number of firm years	1639
Number of acquisition announcement firm years	773
Number of non-acquisition announcement firm years	866
Total number of firm years	1639

Panel B: Likelihood of Diversification Sample Selection

	Likelihood of Diverisfication
Randomly selected firms from Fortune 1000	300
Less firms without an acquisition	68
Number of firms announcing an acquisition	232
Total number of acquisition announcements	1954
Related Acquisitions (same 2-digit SIC)	938
Semi-Related Diversifications (different 2-digit, same 1-digit SIC)	354
Unrelated Diversifications (different 1-digit SIC)	662
Total number of acquisition announcements	1954

Table 1 - Sample Selection and Descriptive Statistics (*Continued)*

Panel C: Descriptive Statistics
The sample consists of 1,639 firm-years (773 acquisition announcement firm-years and 866 non-acquisition announcement firm-years) from 1998-2004.

	Acquirer		Non-Acquirer		*p* -value
Variable	Mean	Std Dev	Mean	Std Dev	t-test
Governance					
BOARD	2.4490	0.2287	2.4338	0.2196	0.1707
OUTSIDE_DIRECTORS	0.7718	0.1593	0.7799	0.1693	0.3194
E	3.6843	1.3384	3.4711	1.3333	0.0013
Exper Power					
CEO_TENURE	1.6805	0.8958	1.6233	0.9201	0.2033
NUM_POSITIONS	2.5977	2.3174	2.5069	2.3232	0.4295
Prestige Power					
ELITE	0.4049	0.4912	0.4030	0.4908	0.9372
OTHERBOARDS	0.7347	0.5686	0.7495	0.5779	0.6017
Structural Power					
CHAIR	0.7361	0.4410	0.7667	0.4231	0.1515
Ownership Power					
SHROWN	0.0082	0.0268	0.0131	0.0410	0.0047
FOUNDER	0.0957	0.2944	0.0889	0.2848	0.6341
Control Variables					
MOMENTUM	0.1034	0.5209	0.0171	0.4452	0.0003
SALESGROWTH	0.1411	0.3057	0.0990	0.3107	0.0058
LEVERAGE	0.8408	1.1527	1.0024	1.4882	0.0149
BTM	0.3813	0.2678	0.5189	0.4280	<0.0001
SIZE	8.8802	1.2763	8.7048	1.2528	0.0051
CASHLEV	0.0896	0.1226	0.0783	0.1163	0.0550
FIRMAGE	3.2346	0.8003	3.2512	0.8068	0.6766
TOTAL_DIV	1.2604	0.4210	1.1505	0.4229	<0.0001

*Variable definitions are presented in the Appendix.

Table 2: Pearson Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 *BOARD*																	
2 *OUTSIDE_DIRECTORS*	0.196																
	<0.001																
3 *E*	-0.079	-0.100															
	0.001	<0.001															
4 *CEO_TENURE*	-0.087	-0.053	0.094														
	0.000	0.031	0.000														
5 *NUM_POSITIONS*	0.200	0.037	-0.090	-0.228													
	<0.001	0.139	0.000	<0.001													
6 *ELITE*	0.011	0.033	0.093	0.203	-0.050												
	0.668	0.182	0.000	<0.001	0.044												
7 *OTHERBOARDS*	0.144	0.167	-0.050	0.146	-0.025	0.113											
	<0.001	<0.001	0.044	<0.001	0.313	<0.001											
8 *CHAIR*	-0.034	0.167	-0.014	0.378	-0.039	0.190	0.164										
	0.166	<0.001	0.582	<0.001	0.110	<0.001	<0.001										
9 *SHROWN*	-0.055	-0.181	0.182	0.257	-0.139	0.110	-0.168	0.070									
	0.025	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001	0.004									
10 *FOUNDER*	-0.097	-0.159	0.162	0.333	-0.136	0.138	-0.160	0.056	0.474								
	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001	0.024	<0.001								
11 *MOMENTUM*	-0.077	-0.050	0.058	0.061	-0.004	-0.001	-0.055	-0.004	0.003	0.027							
	0.002	0.041	0.018	0.013	0.866	0.968	0.026	0.884	0.912	0.281							
12 *SALESGROWTH*	-0.010	-0.036	0.100	0.097	-0.080	0.010	-0.026	0.032	0.014	0.074	0.218						
	0.689	0.150	<0.001	<0.001	0.001	0.690	0.302	0.189	0.582	0.003	<0.001						
13 *LEVERAGE*	0.124	0.039	-0.033	-0.049	-0.001	0.080	0.064	0.060	-0.072	-0.063	-0.039	-0.006					
	<0.001	0.111	0.178	0.049	0.952	0.001	0.010	0.016	0.003	0.011	0.119	0.809					
14 *BTM*	-0.056	-0.007	-0.199	0.019	-0.098	-0.095	-0.061	-0.022	-0.023	0.048	-0.295	-0.127	0.005				
	0.023	0.776	<0.001	0.442	<0.001	0.000	0.013	0.377	0.347	0.051	<0.001	<0.001	0.855				
15 *SIZE*	0.434	0.155	0.068	-0.010	0.132	0.058	0.115	0.164	-0.092	-0.078	-0.052	0.007	0.210	0.036			
	<0.001	<0.001	0.006	0.687	<0.001	0.019	<0.001	<0.001	0.000	0.002	0.035	0.782	<0.001	0.140			
16 *CASHLEV*	-0.301	-0.128	0.152	0.065	-0.093	0.017	-0.101	-0.104	0.004	0.088	0.134	-0.032	-0.169	-0.140	-0.216		
	<0.001	<0.001	<0.001	0.008	0.000	0.484	<0.001	<0.001	0.886	0.000	<0.001	0.190	<0.001	<0.001	<0.001		
17 *FIRMAGE*	0.275	0.117	-0.050	-0.119	0.221	0.025	0.168	0.053	-0.053	-0.109	-0.088	-0.104	0.096	-0.040	0.205	-0.162	
	<0.001	<0.001	0.042	<0.001	<0.001	0.311	<0.001	0.031	0.031	<0.001	0.000	<0.001	0.000	0.105	<0.001	<0.001	
18 *TOTAL_DIV*	-0.011	0.027	0.092	0.005	0.132	0.184	0.006	0.053	0.028	0.090	-0.003	-0.063	-0.131	-0.162	0.048	0.096	0.031
	0.661	0.283	0.000	0.850	<0.001	<0.001	0.809	0.031	0.259	0.000	0.888	0.010	<0.001	<0.001	0.053	0.000	0.206

*Variable definitions are provided in the Appendix. Year and industry dummy variables are omitted from the table.

Table 3: Results of Logistic Regression Analysis on the Likelihood of an Acquisition
The dependent variable is Acquirer; it equals 1 for firms announcing at least one acquisition during the year and 0 otherwise. The sample consists of 1,639 firm-years (773 acquisition firm-years and 866 non-acquisition firm-years) during the years 1998-2004. P-values less then 0.05 are in bold; p-values between 0.10 and 0.05 are in italics.

	Hypotheses/	Model 1	
Variables	Predictions	Estimate	Pr > ChiSq
Governance			
BOARD	H1 (-)	0.338	0.267
OUTSIDE_DIRECTORS	H1 (-)	-0.406	0.258
E	H1 (-)	0.005	0.906
Expert Power			
CEO_TENURE	H3 (+)	0.198	**0.008**
NUM_POSITIONS	H3 (+)	-0.051	*0.051*
Prestige Power			
ELITE	H3 (+)	-0.117	0.331
OTHERBOARDS	H3 (+)	-0.221	**0.035**
Structural Power			
CHAIR	H5 (-)	-0.280	*0.056*
Owernship Power			
SHROWN	H7 (-)	-7.433	**<0.001**
FOUNDER	H7 (-)	0.155	0.499
Control Variables			
MOMENTUM		0.199	0.116
SALESGROWTH		0.484	**0.015**
LEVERAGE		-0.111	**0.011**
BTM		-0.921	**<0.001**
SIZE		0.383	**<0.001**
CASHLEV		-0.003	0.995
FIRMAGE		-0.021	0.773
TOTAL_DIV		0.051	0.734
INTERCEPT		-0.896	**<0.001**
		Chi-Square	Pr > ChiSq
Likelihood ratio test		252.753	<0.001
Max-Rescaled R^2			0.191
Sample Size (total firms)			1639
Acquistion Firm-years			773
Non-Acquisition Firm-years			866

*Variable definitions are provided in the Appendix. Year and industry dummy variables are omitted from the table.

Table 4: Results of Logistic Regression Analysis - Related, Semi-Related, and Unrelated Acquisitions

The dependent variable for Model 2 is 1 for related acquisitions, where the target and acquirer share the same first two or more digits of their primary SIC codes and 0 otherwise. For Model 3 it is set to 1 for acquisistions where the acquirer and target share the same 1-digit primary SIC code but a different 2-digit SIC code and 0 otherwise. The dependent variable for Model 4 is set to 1 for acquisitions where there is no match at the first digit of the primary SIC code and 0 otherwise. P-values of less than 0.05 are in bold; p-values between 0.10 and 0.05 are in italix.

	Hypotheses/	Model 2: Related		Model 3: Semi-Related		Hypotheses/	Model 4: Unrelated	
Variables	Predictions	Estimate	Pr > ChiSq	Estimate	Pr > ChiSq	Predictions	Estimate	Pr > ChiSq
Governance								
BOARD	H2 (+)	0.466	*0.095*	-0.876	**0.015**	H2 (-)	0.277	0.330
OUTSIDE DIRECTORS	H2 (+)	-0.841	**0.040**	1.485	**0.018**	H2 (-)	-0.048	0.910
E	H2 (+)	0.121	**0.004**	0.170	**0.002**	H2 (-)	-0.224	**<0.001**
Expert Power								
CEO_TENURE	H4 (-)	-0.130	*0.060*	0.028	0.761	H4 (+)	0.094	0.190
NUM_POSITIONS	H4 (-)	0.036	0.174	-0.024	0.485	H4 (+)	-0.020	0.464
Prestige Power								
ELITE	H4 (-)	-0.187	*0.094*	-0.146	0.317	H4 (+)	0.295	**0.011**
OTHERBOARDS	H4 (-)	-0.004	0.965	0.135	0.322	H4 (+)	-0.086	0.401
Structural Power								
CHAIR	H6 (+)	0.227	*0.079*	-0.658	**<0.001**	H6 (-)	0.252	*0.066*
Owernship Power								
SHROWN	H8 (+)	-2.215	0.424	5.691	*0.081*	H8 (-)	-0.660	0.820
FOUNDER	H8 (+)	0.466	**0.025**	-0.477	0.117	H8 (-)	-0.253	0.249
Control Variables								
MOMENTUM		-0.030	0.779	0.417	**0.003**		-0.250	**0.035**
SALESGROWTH		0.105	0.588	-0.170	0.499		-0.086	0.694
LEVERAGE		0.005	0.934	0.113	0.117		-0.098	0.116
BTM		0.676	**0.008**	-0.143	0.673		-0.782	**0.007**
SIZE		-0.184	**0.001**	0.120	0.075		0.077	0.155
CASHLEV		-1.396	**0.008**	2.159	**0.001**		0.032	0.952
FIRMAGE		0.040	0.616	0.137	0.198		-0.093	0.261
STOCK		-0.329	0.108	0.157	0.585		0.331	0.112
HOSTILE		-0.183	0.776	0.077	0.916		0.259	0.717
PUBLIC		0.480	**0.002**	-0.007	0.974		-0.511	**0.002**
TOTAL_DIV		-0.272	*0.051*	1.101	**<0.001**		-0.348	**0.017**
INTERCEPT		-0.130	0.573	-0.918	**0.003**		-1.175	**<0.001**
		Chi-Square	Pr > ChiSq	Chi-Square	Pr > ChiSq		Chi-Square	Pr > ChiSq
Likelihood ratio test		264.368	<0.001	321.280	<0.001		177.471	<0.001
Max-Rescaled R^2			0.169		0.248			0.120
Sample Size (total acquisitions)			1954		1954			1954
Related (Model 2), Semi-Related (3), and Unrelated (4)			938		354			662
Other Acquisitions			1016		1600			1292

*Variable definitions are provided in the Appendix. Year and industry dummy variables are omitted from the tables.

Table 5: Results of OLS Regression Analysis - Announcement Period Returns
The dependent variable is the 11-day announcement period return (from day -5 to day +5, where day 0 is the announcement day), adjusted using CRSP's equal-weighted market return. P-values of less then 0.05 are in bold; p-values between 0.10 and 0.05 are in italix.

	Model 5	
Variables	Estimate	Pr > ChiSq
Governance		
BOARD	-0.003	0.783
OUTSIDE_DIRECTORS	-0.003	0.816
E	0.000	0.995
Expert Power		
CEO_TENURE	0.006	**0.034**
NUM_POSITIONS	0.001	0.368
Prestige Power		
ELITE	0.002	0.584
OTHERBOARDS	-0.007	*0.075*
Structural Power		
CHAIR	-0.009	*0.079*
Owernship Power		
SHROWN	0.074	0.587
FOUNDER	-0.022	**0.042**
Control Variables		
MOMENTUM	-0.004	0.485
SALESGROWTH	-0.003	0.776
LEVERAGE	0.000	0.899
BTM	-0.004	0.700
SIZE	-0.001	0.634
CASHLEV	-0.010	0.630
FIRMAGE	-0.003	0.353
STOCK	0.004	0.649
HOSTILE	-0.017	0.307
PUBLIC	-0.019	**0.002**
UNRELATED	0.005	0.233
SEMI-RELATED	0.001	0.811
TOTAL_DIV	-0.001	0.819
INTERCEPT	0.022	**0.005**
	F-Value	Pr > F
Analysis of Variance	1.660	0.006
Ajusted R^2		0.013
Sample Size (total firms)		1954

*Variable definitions are provided in the Appendix. Year and industry dummy variables are omitted from the table.